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DEPARTMENT FOR AF/E JTREADWELL, INR FEHRENREICH
DEPARTMENT PASS TO TREASURY DEPSEC WOLIN, DPETERS, RKLEIN

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SUBJECT: TREASURY DEPUTY SECRETARY WOLIN'S MEETING WITH PRESIDENT KIKWETE

¶1. (SBU) SUMMARY: In a November 2 meeting at State House, President Jakaya Kikwete thanked visiting Treasury Deputy Secretary Neal Wolin for ongoing U.S. assistance to Tanzania, including \$37.7 million in Financial Crisis Initiative funding that the Deputy Secretary and Finance Minister Mkulo announced to the press following the meeting.

Kikwete admitted the need to improve Tanzania's investment climate to spur growth, underscored his commitment to developing Tanzania's agricultural sector, and discussed challenges to developing regional transport connections through the Central Corridor. Deputy Secretary Wolin encouraged development of Tanzania's capital markets, in part as a means towards attracting investment, and noted the importance of extending Tanzania's anti-money laundering legislation to Zanzibar. END SUMMARY.

¶2. (SBU) President Kikwete praised the state of bilateral relations, to which he said the visit had contributed. He expressed his appreciation for U.S. assistance in the health sector, especially regarding malaria and HIV, as well as for support for education. He noted his satisfaction with the Millennium Challenge Compact, in particular that its development was Tanzania-driven and that the U.S. was supporting Tanzanian priorities. Deputy Secretary Wolin previewed the 2010 MCC indicator "scorecard," which he characterized as "almost entirely a good news story," noted our mutual interest in success of the compact, and stressed that the success of the compact would be a foundation for future cooperation.

¶3. (SBU) Investment climate: Remarking that the country's economic growth depended on promoting investment, Kikwete said that Tanzania had been improving its investment climate but continued to face challenges. He listed some guarantees to ensure safe investments, such as the legal prohibition against nationalization and protection for repatriating profits and dividends. Acknowledging that Tanzania's supply-side constraints had limited utilization of AGOA, Kikwete said he had established a team to analyze and respond to the deficiencies identified in the World Bank's Doing Business report. He acknowledged that there are clear problems that could be easily handled, such as the requirement for every new business to get a certification from the geological survey regardless of the type of business. Kikwete said that he instructed his cabinet to make these changes immediately before turning to the more difficult problems. He commented that the GOT was grappling with the supply-side constraints that limited Tanzania's use of AGOA. Deputy Secretary Wolin noted that the U.S. private sector is keen to do business where the environment is attractive and suggested that Tanzanian development of its capital markets would ease the entry of investors. Deputy Secretary Wolin noted that the U.S. Treasury Department currently provides a resident advisor who is working on development of local debt markets. .

¶4. (SBU) Agriculture: Noting the importance of agriculture and food security to President Obama, Deputy Secretary Wolin said his November 1 visit to an International Institute for Tropical Agriculture cassava research site near the town of Bagamoyo had

shown him a good example of a Tanzanian project focusing on food security and poverty reduction. Kikwete was clearly pleased to hear about the visit, mentioning that Bagamoyo was his home town.

Kikwete said he was trying to increase funding for agriculture, to lift it from fifth to fourth (behind education, infrastructure and health) in the GOT budget. He said he planned to attend the upcoming Rome meeting on agriculture. Asked about the ban on international trade in Tanzanian maize, Kikwete insisted it was a temporary policy to prevent vital food stores being sold off to Kenya during the present drought. Kikwete pointed out that Tanzania is surrounded by countries of much greater population density, which as a brake on regional integration. On inputs, Kikwete mentioned Tanzania's natural gas and phosphate resources, and his intention to identify capital and expertise to set up plants within Tanzania to convert these resources into fertilizer.

¶5. (SBU) Infrastructure: Kikwete emphasized Tanzania's commitment to developing the Central Corridor linking the Port of Dar es Salaam with Rwanda, Burundi, Uganda and eastern DRC. He said only a few gaps remained before a paved road would connect Tanzania to all of its western neighbors. Turning to rails, he alluded to a (USTDA-sponsored) study conducted by U.S. railroad company Burlington Northern Santa Fe, which indicated that upgrading the Central Line to standard gauge rail would be viable and could use the same works as the nearly hundred year-old, German-built line. Kikwete said the GOT had a basic agreement on rails with Rwanda and Burundi and was looking to the African Development Bank to be the lead financier. Kikwete said there were two additional railroads that he saw as priorities: a line from Dar es Salaam to Musoma,

connecting to a ferry route on Lake Victoria, and a line from Dar es Salaam to Kigoma. Turning to the Port of Dar es Salaam, he acknowledged that there had been management problems, but that the GOT had renegotiated with the concessionaire for container services (TICTS) to cancel the contract's exclusivity clause, thus opening the port to other investors. He said the government is discussing port management with BNSF. He also cited the GOT's difficulty with the concessionaire for Central Line rail service (RITES), which he said received the contract in part because of lack of interest from major operators. Kikwete said GOT dissatisfaction with the RITES managers in country had not persuaded RITES headquarters to agree to personnel changes.

¶6. (SBU) Corruption: Deputy Secretary Wolin raised the issue of corruption and stressed the importance of remaining vigilant in addressing the problem of corruption. Kikwete stressed the difficulty of fighting corruption, saying it was challenging to say that friends should be taken to court. Remarking that his anti-corruption agency (the Preventing and Combating of Corruption Bureau, PCCB) was not required to notify him in advance of a prosecution, he said he asked to be notified a few hours ahead of an arrest, as had been the case in the Alex Stewart Assayers case. He said he was troubled that one of his ambassadors was in court (Note: this refers to alleged corruption in the construction of Tanzania's embassy in Rome). Deputy Secretary Wolin commented that corruption exists in all countries, that the important question is how to set up structures to minimize corruption and react when corruption is discovered.

¶7. (SBU) Bond issuance: Deputy Secretary Wolin said the U.S. stood ready to assist Tanzania if it moved ahead with the issuance of a Eurobond. The Deputy Secretary noted that markets were improving and that an external bond could help foreign investors gain a better understanding of Tanzania in addition to providing financing. Kikwete said Tanzania had made progress on the bond process but then was put off by the global financial crisis. While a Eurobond issue would be on hold until "the cloud clears," the GOT was looking at ways to finance infrastructure through local bond issues. He expressed interest in U.S. assistance when Tanzania moved forward with the Eurobond. In a subsequent meeting without President Kikwete, Mkulo told Deputy Secretary Wolin that the GOT would proceed immediately towards seeking a credit rating and would update Embassy Dar es Salaam by the end of the month. Deputy Secretary Wolin, saying the markets were "moving towards readiness," encouraged Mkulo to "get the timing right."

¶8. (SBU) AML: Deputy Secretary Wolin encouraged action on anti-money laundering (AML) legislation in Zanzibar. Kikwete responded that

the issue was under discussion, since Zanzibar wanted its own legislation. The Union government insisted that Zanzibar could not have looser standards than the GOT's legislation, which conformed to international norms. During his separate meeting with Deputy Secretary Wolin, Mkulo went into further detail about the status of AML legislation in Zanzibar. He said that although monetary matters are a Union competence, the 2006 AML Act needed to be "domesticated" by the Zanzibar House of Representatives to enter into effect for the islands. However, Zanzibar had indicated a preference to pass its own legislation, in part because criminal matters are a Zanzibar competence. Mkulo said that although Zanzibar had been "fully involved" in enacting the 2006 Act, the Zanzibar government had not responded to Union requests to explain any objections to the law. Mkulo concluded by saying that President Kikwete had tasked Vice President Shein with resolving the issue.

¶9. (SBU) AML/CFT assessments: Referencing the recent assessment of Tanzania's AML/CFT system by the FATF-style regional body, Deputy Secretary Wolin noted that the United States felt strongly about the transparency of AML/CFT assessments. He stated that FATF-style regional body (FSRB) review missions must have the freedom to carry out assessments and make the results of those assessments public and transparent. Mkulo stated that he understood the U.S. position, that he had already sent a letter to the head of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLAG) indicating that Tanzania was generally ok with the release of the Tanzanian assessment. He stated that he would also call the head of ESAAMLAG to follow up on the issue.

¶11. (SBU) COMMENT: President Kikwete extended unprecedented courtesies over the course of an unusually long two-hour audience with Deputy Secretary Wolin. He was relaxed, engaged and upbeat, often citing statistics to back his points and demonstrate his command of the economic and food security portfolios. He and Deputy Secretary Wolin had a jovial discussion of American sports at the end of the meeting and Kikwete confirmed that he is a Chicago Bulls fan. Kikwete responded on a personal level to the warm expressions of partnership and offers of technical assistance made

by Deputy Secretary Wolin. END COMMENT.

¶12. (U) Deputy Secretary Wolin cleared this message.

ANDRE